

Before and After: Property Tax Reform Arithmetic, Projected to 2010 Using Statewide Data

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The figures in the table are statewide projections to 2010, assuming that property tax levies increase by 4% per year, assessed values rise 2% per year, and (for the “before” projection) that the existing state tax relief cap continues at \$2 billion. These calculations *do not* include the effects of the circuit breaker credits.

1. Levy. With no other changes, by 2010 the statewide tax levy before credits is projected to be \$9.2 billion. Under the 2008 property tax reform, however, the state will take over the school general fund, the county welfare funds, and several smaller property tax funds. This will reduce property tax levies by about \$2.8 billion, leaving \$6.4 billion.
2. Net Assessed Value after Deductions. If assessed value grows as projected, the assessed value of property statewide will be \$296.9 billion by 2010. Under the 2008 property tax reform, though, homeowner deductions increase substantially. Most homeowners will be eligible for an additional 35% deduction, after the current \$45,000 standard homestead deduction is subtracted. In addition, the maximum standard deduction was raised from 50% to 60% of a home’s assessed value. These big new deductions will reduce net assessed value statewide by a projected \$48.2 billion, a bit more than 16%.
3. Gross Tax Rate. Property tax rates are calculated by dividing the levy by the net assessed value. The average rate statewide would be \$3.09 per \$100 assessed value (3.09%) in 2010, under these assumptions. The reduction in the tax levy reduces the numerator of the rate calculation. The reduction in net assessed value reduces the denominator. The levy reduction is larger, so the projected gross tax rate falls to \$2.56.
4. State Credits. The state provides property taxpayers with property tax replacement credits (PTRC) and homestead credits. This reduces property tax payments to local governments. The state pays local governments about \$2 billion to replace this lost revenue. Under the 2008 property tax reform, this revenue will be used to pay for the state levy takeovers. The PTRC and homestead credits will disappear.
5. Net Levy. The net levy is the amount of the property tax levy actually paid by taxpayers, after state credits are subtracted. Subtracting the state credits from the gross levy would yield \$7.1 billion (after rounding). There will be no credits to subtract in 2010 under the tax reform, so the net levy equals the gross levy. The difference is paid for by the sales tax increase. (Actually, there will be a small \$80 million homestead credit in 2010, which will expire at the end of the year.)
6. “Net Rate.” This is a rate that does not appear on tax bills, but it’s useful in comparing taxes before and after the tax reform. The net rate is the net levy divided by the net assessed value. For the “before” calculation, it combines the gross tax rate and the state credits. The before rate is \$2.41. The net rate is the same as the gross rate after the tax reform, at \$2.56. The net rate times the net assessed value gives the net levy, which taxpayers actually pay.
7. Percent Change in Net Rate. The net rate is projected to increase as a result of the tax reform, by about 6%. The reduction in the levy is not enough to offset the combined reduction in net assessed value (from the new homeowner deductions), and the elimination of the PTRC and homestead tax credits. Taxpayers who do not receive added tax deductions will see an increase in their tax bills of about 6%. Homeowners see a reduction in their assessments of about 37%, due to the new homeowner deductions. A 37% decrease in assessed value, combined with a 6% increase in the net tax rate, gives a decrease in the average homeowner’s tax bill of 31%. *The added homeowner deductions channel the tax relief to homeowners. Other taxpayers are likely to see small tax increases as a result of the tax reform.*

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Assume:

Levies increase 4% per year

Assessed values increase 2% per year

Existing state tax relief cap continues at \$2 billion

Not Counting Circuit Breakers

	Before	After	Notes
1. Levy (billions)	\$9.2	\$9.2 (\$2.8) \$6.4	Subtract state levy takeovers Smaller local levy
2. Net Assessed Value After deductions (billions)	\$296.9	\$296.9 (\$48.2) \$248.7	Subtract new homestead deductions Smaller net assessed value
3. Gross Tax Rate Levy / AV (dollars per \$100 AV)	\$3.09	\$2.56	Gross rate falls, levy falls more than AV
4. State Credits	\$2.0	none	State credits eliminated Revenue used to pay for levy takeovers
5. Net Levy Gross Levy less credits	\$7.1	\$6.4	Net reduction mostly due to added sales tax
6. "Net Rate" Net Levy / AV (dollars per \$100 AV)	\$2.41	\$2.56	Gross rate falls, but not enough to offset elimination of credits
7. Percent Change in Net Rate		6%	Tax bill increase if taxpayer's AV doesn't change
Percent Change in Homeowner AV		-37%	35% Supplemental Homestead Deduction Increase in Homestead Deduction cap to 60% of AV
Approximate change in average homeowner's tax bill		-31%	Tax relief directed to homeowners